

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 AGR-20

COME-00 PA-04 PRS-01 USIA-15 DRC-01 SWF-02 L-03 H-03

TAR-02 (ISO) W

----- 004324

P R 031415Z JUL 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 7456

INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMCONSUL GUAYAQUIL

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY QUITO

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E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: BANANAS: COSTA RICA'S NEW EXPORT TAX SYSTEM

REF: SAN JOSE 2526

1. SUMMARY: COSTA RICA'S NEW BANANA EXPORT TAX--RANGING FROM 25 CENTS UP TO \$1 DEPENDING UPON MARKET PRICES--DOES NOT FULLY SATISFY ANYONE. NEVERTHELESS, EVEN THOUGH THE FRUIT COMPANIES ARE PAYING UNDER PROTEST, BOTH SIDES ARE VISIBLY RELIEVED THAT A SORT OF TRUCE HAS BEEN REACHED. PRIVATELY, GOCR OFFICIALS, INCLUDING ACTING PRESIDENT CASTILLO, ARE MOST ENCOURAGED AND ARE OPTIMISTIC THAT COSTA RICA'S "BANANA WAR" IS OVER. RATHER THAN A LIMITED OFFICIAL USE

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DEVICE FOR INCREASING EARNINGS FROM BANANA EXPORTS THE CHARGE NOW

SEEMS TO BE A TRUE EXPORT TAX WITH INCIDENCE ON THE PRODUCER.
ENDSUMMARY.

2. AGREEMENT ON THE GRADUATED BANANA EXPORT TAX STARTING AT 25 CENTS PER BOX REPORTED REFTEL SEEMS TO HAVE DEFUSED, AT LEAST FOR THE MOMENT, COSTA RICA'S BANANA CRISIS. THE TWO MAJOR FRUIT EXPORTERS, STANDARD FRUIT AND UNITED BRANDS, HAVE BOTH AGREED TO PAY THE TAX UNDER PROTEST AND STANDARD HAS SAID IT WILL FIGHT THE TAX IN THE COURTS. STANDARD'S LEGAL POSITION IS BASED UPON A PROVISION OF UNITED'S UMBRELLA CONTRACT WITH THE GOCR WHICH PLACES STRICT LIMITS ON THE AMOUNT OF EXPORT TAX THAT MAY BE ASSESSED. UNITED ALSO CLAIMS THE NEW TAX IS ILLEGAL BUT INsofar AS WE KNOW DOES NOT AT THIS TIME PLAN TO INSTITUTE LEGAL ACTION. AN UNITED OFFICIAL TOLD THE EMBASSY THAT SINCE GOCR REJECTED UNITED'S PROPOSAL OF A 15 CENT TAX UNITED WILL NOT REPEAT NOT RENEGOTIATE CONTRACT TO INCLUDE THE NEW FORMULA UNLESS ALL FOREIGN COMPANIES AGREE. (HE SUGGESTED THAT TO DO OTHERWISE WOULD OPEN UNITED TO LEGAL ACTION BY THE OTHER COMPANIES.)

3. IN CONVERSATIONS WITH ACTING PRESIDENT CASTILLO AND OTHER HIGH RANKING OFFICIALS DURING A SMALL RECPTION EVENING OF JULY 1, THESE GAVE IMPRESSION OF RELIEF THAT PROBLEM PRACTICALLY SOLVED AND OPTIMISM THAT FUTURE RELATIONS WITH THE COMPANIES WOULD IMPROVE. DE LA ESPRIELLA OF STANDARD ON JULY 2 STILL HAD GRAVE DOUBTS ABOUT THE TAX BUT SHARED RELIEF THAT THE WORST WAS NOW OVER.

4. PRECISE MANNER IN WHICH NEW TAX WILL WORK MUST AWAIT DETAILED REGULATIONS. DECREE NUMBER 3923 OF JULY 1, HOWEVER, SETS BROAD OUTLINES, SUMMARIZED AS FOLLOWS:

PER BOX PRICE	GROSS TAX	REBATE	EFFECTIVE TAX
\$4.50 & BELOW	1.00	.75	.25
\$4.60	1.00	.70	.30
\$5.00	1.00	.50	.50
\$5.50	1.00	.25	.75
\$6.00	1.00	.00	1.00

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STILL TO BE WORKED OUT IS THE PRECISE WAY IN WHICH PER BOX PRICES WILL BE CALCULATED, BUT MOST LIKELY SOME SYSTEM OF WEIGHTED AVERAGES WILL BE ATTEMPTED IN ORDER TO AVOID DISCRIMINATION BETWEEN MARKETS. ALSO TO BE WORKED OUT IS HOW REVENUE FROM THE EFFECTIVE TAX WILL BE SHARED. DE LA ESPRIELLA SEEMED TO THINK THAT FIRST 25 CENTS WILL GO TO GOCR BUT BALANCE MIGHT BE DIVIDED BETWEEN GOCR, INDEPENDENTS AND FOREIGN PRODUCERS.

5. COMMENT: THE JULY 1 "SOLUTION" SEEMS PRINCIPALLY TO BE A COMPLEX BUT INGENIOUS WAY FOR THE GOCR TO UNHOIST ITSELF FROM ITS OWN PETARD. THE COMPROMISE SEEMS TO US TO REPRESENT A FUNDAMENTAL SHIFT FROM WHAT EX-PRESIDENT FIGUERES HAD IN MIND WITH HIS ORIGINAL "GRITO DE GUAPILES". SINCE IT HAS LONG BEEN OBVIOUS THAT COSTA RICA COULD NOT HOPE TO EXERCISE CONTROL OVER THE MARKET PLACE (WITH ITS FAILURE TO OBTAIN PRODUCER UNITY) THE TAX APPEARS NOW TO BE NOTHING MORE THAN AN EXPORT TAX --NOT ESSENTIALLY DIFFERENT FROM OTHERS-- WHICH WILL END UP PENALIZING THE PRODUCER AND DISCOURAGING EXPORTS FROM COSTA RICA, IF NOT IN THE SHORT RUN CERTAINLY OVER THE MEDIUM AND LONG RUN. AS SUCH IT IS BAD TAX LAW AND BAD ECONOMICS. (SOME EARLY PRESS REACTION, ALSO, PLAYED THE TAX AS CAPITULATION TO OLD STYLE COMPANY IMPERIALISM.) GOCR OFFICIALS UNDOUBTEDLY KNOW THIS BUT THE POINT IS THAT SOME FACT SAVING DEVICE HAD TO BE FOUND SINCE FIGUERES' IDEA HAD OBVIOUSLY FAILED AND THE ONE THAT THE GOCR CAME UP WITH SEEMS AS GOOD AS ANYTHING. WE DOUBT THAT--IN THE FACT OF INCREASING COMPETITION FROM ECUADOR--THE TAX WILL LAST LONG.

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